

CALIFORNIA DEPARTMENT OF CHILD SUPPORT SERVICES

P.O. Box 419064, Rancho Cordova, CA 95741-9064



May 11, 2004

CSSIN LETTER: 04-03

ALL IV-D DIRECTORS
ALL COUNTY ADMINISTRATIVE OFFICERS
ALL BOARDS OF SUPERVISORS

SUBJECT: UNDISTRIBUTED COLLECTIONS

In July 2003, the final Report on Undistributed Collections (UDC) Initiative was forwarded to the federal Office of Child Support Enforcement (OCSE) for review and approval. A copy of the Executive Summary is enclosed. There were three primary reasons identified as the cause of the overstated UDC, which are listed below in descending order of magnitude:

- Incorrect interpretation of reporting requirements;
- Failure to correctly process negative adjustments; and
- Imprecision in State reporting approach.

The UDC Initiative was a major effort by the Department of Child Support Services and required the cooperation of the local child support agencies (LCSAs). We are pleased to have accomplished the goal of the initiative which was to identify the cause of the overstated UDC and determine the correct UDC amount for future reporting. This is a key milestone for child support services in California of which we can all be proud.

As a result of these efforts, on December 19, 2003, DCSS submitted a new Undistributed Collections amount to OCSE. The UDC amount was submitted on the Child Support Enforcement Quarterly Report of Collections (OCSE 34A) for the quarter ending September 30, 2003. The total UDC amount reported was \$28,800,483, which represents a decreasing adjustment of \$162 million from previous reports. This adjustment has been discussed with OCSE and has been accepted, pending results of a federal audit currently underway. The audit is focusing on the findings outlined in the Report on Undistributed Collections Initiative as well as collections and distributions currently being reported on the CS 34/35 reports. There have been no significant problems identified in the audit to date. The new UDC amount of \$28.8 million represents 1.28% of total distributed collections. It

Reason for this Transmittal

- ☐ State Law or Regulation Change
- ☐ Federal Law or Regulation Change
- ☐ Court Order or Settlement Change
- ☐ Clarification requested by One or More Counties
- ☒ Initiated by DCSS

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is the Department's goal to reduce the UDC to under 1% and maintain that level on an on-going basis. LCSAs must continue to be diligent in working the UDC to ensure all money available is being distributed quickly and accurately to children and families.

If you have any questions or concerns regarding this matter, please contact Karen Echeverria, Chief of the Data and Performance Branch at (916) 464-5080.

Sincerely,

A handwritten signature in black ink, appearing to read "C. Child", written over a light gray rectangular background.

CURTIS L. CHILD
Director

EXECUTIVE SUMMARY

The Department of Child Support Services (DCSS) recently completed a major initiative to correct longstanding and fundamental flaws in the data collection and reporting of undistributed collections (UDC) in the child support program. The outcomes of the UDC Initiative were to: (1) accurately determine California's UDC amount by correcting past data collection and reporting errors; (2) establish effective management practices statewide that focus ongoing attention and resources on getting all monies due to families to them as quickly as possible; and (3) reconcile the difference between the historically reported incorrect UDC amounts and the newly determined accurate UDC balance. This report provides a complete description of the UDC Initiative, including the issues, approach, findings and actions taken by DCSS and its local child support agencies to ensure accurate and timely distribution of child support collections. As a result of the UDC Initiative, California's reported UDC balance at the end of May 2003, was \$30.6 million, representing a significant decrease from past reported UDC amounts.

Undistributed collections refer to child support collected on behalf of individual recipients that cannot be immediately disbursed due to the lack of identifying information, unknown whereabouts of the intended recipient, determination of welfare status, dispute resolution, or other reason. Some amount of undistributed money is expected at any point in time pending completion of the process of matching payments received with intended recipients. This aspect of payment processing is not unique to the child support program; every business entity that collects money must locate payees and appropriately account for payments received. However, over the last several years, California and the nation have experienced an increase in undistributed child support collections. In California, UDC had grown moderately over the years at a rate lower than the national average, but began to increase dramatically beginning in late 1998.

The growth in the amount of undistributed collections has been a major concern to child support professionals, advocates, and families, and the reason that California's DCSS undertook an Undistributed Collections Initiative beginning in mid-2000. California passed child support program reform legislation in 1999, which included establishing a State department of child support services, in response to mounting criticism about program effectiveness. A particular concern was the accuracy, reliability, and use of data in program management and oversight. Moreover, several federal and State reviews during the 1990s pointed to particular problems and inaccuracies in UDC reporting. At the same time, there was increasing recognition of the importance of the child support program in promoting the well-being of children and the self-sufficiency of families through effective collection activities and accurate and timely distribution of all monies. Most families participating in the program depend on child support payments to meet their basic living needs, and any delay in distributing child support collections has a potentially significant impact. Therefore, establishment of a UDC Initiative to explore the many concerns and issues surrounding this area was paramount to the new DCSS.

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The primary objective of the UDC Initiative was to design and implement a method to accurately report and enable routine oversight of UDC balances to ensure accurate and timely distribution of monies to families. Implementation of key elements of the Initiative included a phased and methodical approach, as well as the involvement of key stakeholders throughout the process. Beginning in December 2000, DCSS began holding monthly meetings with child support advocates. These meetings were held throughout the life of the Initiative, permitting advocates to review progress and raise issues and concerns during all phases. In addition, local child support agencies contributed to this effort by providing business process guidance in designing the reports, and focusing attention and resources on working the identified categories of UDC. Lastly, the federal OCSE monitored, provided input and advice, and conducted reviews of work products throughout the Initiative. Together, these individuals and parties greatly contributed to successful completion of the UDC Initiative.

As originally conceived, the UDC Initiative was a project that would methodically assess current reporting processes, identify problems, and develop and implement a solution resulting in reliable and accurate UDC reporting. This important work would be accomplished through a three-phase approach consisting of: Phase 1 - designing and implementing an ad hoc UDC reporting capability as an interim approach to accurately determine the UDC amount and to learn more about the categories and management of UDC; Phase 2 - modifying interim automation systems to electronically report accurate UDC amounts and validate the accuracy of these changes; and Phase 3 - reconciling pre- and post-UDC Initiative amounts since it was expected that the amounts would be different. However, as the Initiative neared completion in early 2003, a Phase 4 was added to ensure that there were no monies unreported, i.e., remaining in legacy systems or otherwise not included in the reported UDC amount.

Phase 1 of the Initiative began in mid-2000 and concluded in June 2002, with implementation of an automated collections and distributions reporting process. The focus of this phase was to gain a detailed understanding of existing State and local child support agency data accumulation and reporting processes. This included reviewing the report structure, data elements and definitions, and data mapping algorithms used in State reports. This was followed by design, implementation, and evaluation of an ad hoc reporting process necessary to address problems and shortcomings identified by the detailed review.

Phase 1 identified key problems associated with the State reporting approach including that State developed forms did not always mirror federal requirements, data elements, and data element definitions. The State's approach of using different forms and data elements was found to be a fundamental flaw that introduced the likelihood of error. In addition, the State's approach of calculating California's UDC balance increased the likelihood for error. In order to calculate California's UDC amount, the State created a database to accumulate data from monthly local agency reports that, in turn, was used to generate an aggregated total State UDC amount. The process of manually entering data from 522 forms, each with dozens of data elements, to produce a single OCSE-34A itself introduced significant data accuracy risk. In addition, local child support

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agencies were not required to report and track their UDC balances leaving the State with no insight into the UDC amounts individual local agencies tracked through their automated systems. As a result, the State did not reconcile UDC amounts accumulated by local agencies with the calculated total State UDC amount. Another key observation in Phase 1 was the fact that the State's CS 800 series forms were designed as independent monthly reports, in stark contrast to the balance sheet approach of the federal OCSE-34A. Local agencies had little or no knowledge of how the State was accumulating or otherwise using the data reported on the series 800 forms to calculate UDC. Therefore, there was no business logic or rules that could be applied locally to ensure that reports were meeting State level needs. The most striking problem was the failure to consistently make adjustments to collections to reflect refunds or other changes, a critical shortcoming when the data are used to maintain a federal balance sheet.

Information gathered during the Phase 1 process revealed the following: 1) data strongly supported the DCSS working hypothesis that the State's previously reported UDC amounts were inaccurate; 2) total UDC amounts reported by local agencies remained consistent; however, differences existed between local agencies in the amounts reported within UDC categories; 3) business processing rules between local agencies and/or consortia were inconsistent; 4) local agencies did not use consistent practice when applying adjustments to collections; and 5) the largest share of the UDC total is money owed to the government.

The Phase 1 effort, which was supported by a team of DCSS subject matter experts and local agency consortia leads, resulted in the development of an ad hoc reporting process to accurately capture UDC that, for the first time, was directly submitted by local child support agencies. The first ad hoc reports were submitted for March 2001, refined after three months (March through May 2001) of data collection, and continued through June 2002 to provide 13 months of test data. This early phase led to immediate correction of State data accumulation and reporting errors, and assisted in reconciliation of pre- and post-Initiative UDC amounts.

Phase 2 of the UDC Initiative began in October 2001. The Phase 2 effort was aimed at modifying the six interim automation systems to enable local child support agencies to uniformly and electronically accumulate and report federal OCSE 34-A information, including total UDC amounts and categories. This was accomplished by refining reporting forms and instructions; completing functional requirements and systems changes; and evaluating outcomes of automated reporting. Using lessons learned from Phase 1 ad hoc reporting, the focus was on designing new State reports to replace the CS 800 series forms enabling accurate completion of the OCSE-34A. A fundamental tenet of this effort was to mirror the OCSE-34A form, designing a State supplemental form to capture UDC categories and any other information deemed necessary by the State.

Phase 2 of the Initiative began with the development of a work plan of key activities and timeframes to complete the process to automate UDC related reporting. Primary

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activities included initial preparation of reporting forms and instructions, development of functional requirements, reprogramming consortia systems, and automated reporting testing using live data. DCSS, in partnership with consortia leads, led this process that, including an initial test period, took place from October 2001 through September 2002. The process resulted in accurate and reliable collections and distributions reporting using two new State forms.

Findings and conclusions resulting from implementation of detailed automated UDC reporting are significant. For the first time DCSS now has immediate access to local child support agency data submissions, data tracking down to the local agency level, better cash flow of TANF reimbursements and, most importantly, accountability and reconciliation of UDC on the CS 34 and CS 35 to the OCSE-34A. Moreover, DCSS now has the ability to track and provide oversight in management of UDC balances. However, most importantly, local child support agencies now have a uniform and consistent approach through which to monitor their own UDC.

Phase 3 of the UDC Initiative focused on verification and reconciliation of the pre- and post-Initiative UDC amounts. The tasks in this phase were to complete final testing to validate the accuracy of the UDC balance yielded from the new automated reporting process, and reconcile the difference between the old and new UDC amounts. In early 2003, DCSS completed tests to validate the accuracy of its new collection and distribution reporting process implemented in July 2002. The automated reporting process, designed and implemented after gaining 16 months of ad hoc reporting experience, to date has produced reports for 11 months (July 2002 through May 2003). The methodical process used to develop the automated reporting structure, lengthy total test period of over two years, and additional validation testing, provides overwhelming evidence that the resultant UDC balance is correct. In addition, DCSS has devoted considerable time and effort to reconcile the difference between the UDC amount previously reported on the OCSE-34A and the amount now determined through direct automated reporting by each local child support agency. The reconciliation process began in late 2001 and was completed in early 2003.

The magnitude and complexity of the reconciliation process cannot be understated and make exact “dollar for dollar” reconciliation impossible. This is in large part due to the nature of the program itself which is highly complex, rule driven, multiple transaction-based and subject to frequent change, thus complicating reconstruction of past detailed data. Additionally, there were difficulties encountered due to the longstanding nature of the problem, the fundamental flaws in the prior State reporting process illuminated throughout this report, and the environment in which California’s program operated historically with 58 independent local agencies and over 30 automated systems. Nevertheless, DCSS has successfully identified three factors that comprise the difference in UDC amounts. Each reason has been thoroughly analyzed and quantified, and together provide for reconciliation of the difference between California’s actual and reported UDC amounts.

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The State UDC amount reported on the OCSE-34A as of September 30, 2002 was \$186,922,801. The amount reported as of that date by local agencies through the automated CS 34 report was \$19,163,716, representing a difference of \$167,759,085. The difference has changed only slightly, primarily as a result of the normal ebb and flow of collections, in the two additional quarterly reports submitted since completion of the reconciliation. The amount was subsequently increased in May 2003 as a result of Phase 4 activities described below.

The three reasons identified in this phase of the Initiative as the cause of the overstated UDC, listed in descending order of magnitude, are:

1. Incorrect interpretation of reporting requirements;
2. Failure to correctly process negative adjustments; and
3. Imprecision in State reporting approach.

Incorrect interpretation of reporting requirements relative to collection and distribution reporting was found to be the largest contributor to the difference between the actual and reported State UDC. In this case, a policy directive was interpreted to mean that a disbursement could only be reported if there was a collection in the same reporting period. This interpretation required carrying forward collection amounts until they were disbursed, resulting in overstating both total collection and UDC amounts. However, the policy interpretation and resultant reporting error was limited to the CASES consortia system which comprised 23 percent of the total statewide caseload as of September 30, 2002. The UDC overstated by the 34 member local agencies in the CASES consortium was identified as between \$95.6 million to \$153.9 million. As of September 30, 2002, the difference between actual and reported UDC was \$167,759,085. Using a mid-range estimate, the CASES policy interpretation accounts for \$124,756,123 or more than 74 percent of this difference. However, the mid-range is a conservative estimate, thus likely understating the impact by tens of millions of dollars.

The second largest contributor to the difference between the actual and reported State UDC amount was failure to make necessary adjustments to total collections to reflect refund of federal and State tax offsets. Maintaining an accurate UDC balance requires appropriate and timely upward and downward adjustments to collections and distributions. However, there is strong evidence to demonstrate that adjustments to total collections for refund of tax offsets oftentimes were neither completed consistently nor accurately. As a result of prior federal audit findings that cited incomplete adjustments or refunded collections not adjusted out of gross collections, DCSS focused attention on the CS 820 Line 9-Net Amount of Increasing and Decreasing Adjustments. That led to an analysis of federal and State forms and instructions which revealed differences in federal and State reporting forms and instructions that likely led to confusion and differing interpretations by local child support agencies. As of September 30, 2002, the difference between actual and reported UDC was \$167,759,085. Using the mid-range estimate, the failure to accurately and consistently make adjustment to reflect refund of tax offsets accounts for \$19,760,274 or 12 percent

of this difference. Again, the mid-range is a conservative estimate, likely understating the impact by several million dollars.

The third largest contributor to the difference between the actual and reported State UDC amount identified in Phase 3 was caused by multiple factors that all can be traced to fundamental flaws in the State's reporting structure. These factors include local agency interpretation of business rules and reporting requirements, methods of data transmission and accumulation, and accumulation and calculation of the State's UDC amount. The latter factor, the approach used to accumulate and report undistributed collections at the State level, likely accounts for the greatest share. However, it is difficult if not impossible to isolate the contribution of particular aspects of the State report generation process to the inaccurate UDC amount. Using the mid-range estimate, the flaws attributable to the State's reporting structure account for \$12,792,323 or eight percent of the difference between September 30, 2002 actual and reported UDC.

Taken together, these three contributing factors for the overstatement of collections, described above, result in an overstatement of the UDC for this period of \$124,211,702 million to \$190,405,736 million, with a mid-range of \$157,308,720 million. The State UDC amount reported on the OCSE-34A as of September 30, 2002 was \$186,922,801. The amount reported as of that date by local agencies through the automated CS 34 report was \$19,163,716, representing a difference of \$167,759,085. Even relying on the conservative estimates for the first and second contributing factors, these ranges clearly support the assertion that California's UDC was overstated by \$167.7 million.

As previously stated, the UDC Initiative as originally conceived was comprised of three phases. However, throughout the first three phases, non-specific but continuing references were heard relative to potential legacy system data that may not be reflected in reports generated from consortia databases. In response to that concern, Phase 4 was added to provide a final cross-check to ensure that there were no monies unreported, i.e., remaining in legacy systems or otherwise not included in the reported UDC amount. Phase 4 began in late February 2003 and included identification of potential issues; development and implementation of a survey tool to capture local agency data; assessment of the survey results; and incorporation of identified unreported monies into the collection and distribution reports.

A multidisciplinary team comprised of subject matter experts from all areas of the department including fiscal, policy, and information technology was formed to complete this phase. In addition, the DCSS Regional Administrators were enlisted to play a key role in direct communication and follow-up with the director of each local child support agency. This approach led to identification of the issues and prompt action to ensure accurate reflection and reporting of all collections and distributions.

Phase 4 resulted in increasing the State's UDC balance by incorporating previously unreported collections residing outside of consortia system databases. A total of 28 local child support agencies identified \$6,086,303 in previously unreported collections

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for inclusion in the May 2003 report month. These monies were previously unreported in existing consortia systems; thus, have no impact on the reconciliation of the difference between the State's previously reported and newly determined UDC amounts. Nevertheless, identification and incorporation of these monies resolves the lingering concern about potential unreported monies, and provides final confirmation of the accuracy of the State's new UDC balance.

In conclusion, California's UDC Initiative used a detailed and methodical approach to accurately determine its UDC balance, institute a revised automated reporting process based on direct data input from local agency consortia systems, and institute ongoing management and oversight tools to ensure timely distribution of collections to families. The Initiative took almost three years to complete but, as a result, provides over two years of UDC data (from ad hoc and automated reporting) that demonstrate overall Statewide and individual local agency consistency as well as proactive management. At the same time, the Initiative has demonstrated the accuracy of the automated collections and distributions reporting process and resultant UDC balance. Moreover, the Initiative has shown and documented in detail the reasons for the State's previously reported inaccurate UDC amounts. It is on this basis that the California DCSS proposes to revise its UDC balance reported on the OCSE-34A.